

Report
of the
Examination of
MGIC Indemnity Corporation
Milwaukee, Wisconsin
As of December 31, 2002

TABLE OF CONTENTS

	Page
I. INTRODUCTION	2
II. HISTORY AND PLAN OF OPERATION	4
III. MANAGEMENT AND CONTROL	9
IV. AFFILIATED COMPANIES	11
V. REINSURANCE	21
VI. FINANCIAL DATA	23
VII. SUMMARY OF EXAMINATION RESULTS	32
VIII. CONCLUSION.....	33
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	35
X. ACKNOWLEDGMENT	36



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 22, 2003

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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance (the
"Commissioner"), a compliance examination has been made of the affairs and financial condition
of:

MGIC INDEMNITY CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Indemnity Corporation ("MIC," or the "company") was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

MGIC Indemnity Corporation was initially incorporated November 14, 1956 under the name Mortgage Guaranty Insurance Corporation (“Old MGIC”, the pre February 28, 1985 MGIC legal entity), and commenced operations in March 1957 as a mortgage guaranty insurer. Old MGIC was privately held until 1960, at which time its common capital stock became publicly traded. In 1968, the former holding company, MGIC Investment Corporation (“Old MGIC Investment,” the pre February 28, 1985 MGIC Investment Corporation) was established. Old MGIC became a subsidiary of Old MGIC Investment, and Old MGIC Investment became a publicly traded company.

Ownership and control of Old MGIC Investment and its subsidiaries, including Old MGIC, was acquired by Baldwin-United Corporation (“Baldwin”) effective March 9, 1982. The Baldwin enterprise became financially impaired in 1983 due to the holding company’s excess debt obligations, and Baldwin filed petition for voluntary reorganization under Chapter 11 of the Federal Bankruptcy Code in September 1983.

A 1984 financial examination of Old MGIC Investment and the Old MGIC insurers determined that the companies were financially sound but that their ability to compete in their markets had been severely damaged by their affiliation with the financially impaired Baldwin holding company. An Agreement and Plan of Acquisition and Assumption (the “Plan”) was approved by the Commissioner in November 1984, whereby an insurer, then known as Liberty Mortgage Insurance Corporation (“Liberty”), held by a holding company owned by The Northwestern Mutual Life Insurance Company and senior executives of Old MGIC Investment, acquired from Old MGIC Investment the right to carry on Old MGIC’s insurance business, the rights to the name “Mortgage Guaranty Insurance Corporation” (“MGIC”), and the employees and operating assets of Old MGIC. As a part of the approved agreement, Old MGIC’s remaining in-force renewal policies (the “Old Book” business) entered into run-off and Old MGIC’s net retained liabilities for existing insurance risks were 100% reinsured under quota share reinsurance treaties with a group of international reinsurers.

The 1984 Plan was closed effective February 28, 1985, and Old MGIC's name was changed to Wisconsin Mortgage Assurance Corporation ("WMAC"). Effective March 1, 1985, Liberty's name changed to Mortgage Guaranty Insurance Corporation (the present-day "MGIC"), and the new MGIC continued the ongoing operations that were formerly in WMAC. WMAC was placed into liquidation upon the Plan closing date. The WMAC liquidation proceedings included the following provisions:

1. WMAC no longer wrote new business, but its Old Book insurance in-force, insurance policies noncancelable by the company and renewable by its insureds, continued in force, with the company's net retained liabilities 100% ceded through quota share reinsurance treaties;
2. WMAC's contingency reserve requirement was waived by the Commissioner as a result of the 100% quota share reinsurance becoming effective. Substantially all of WMAC's remaining assets, **after payments related to the quota share reinsurance treaties**, were distributed to its parent, Baldwin, for distribution to Baldwin's creditors;
3. The quota share reinsurance became the primary source of payments for claims incurred on WMAC's in-force business, and;
4. The new writer of insurance, MGIC, became the manager of WMAC's reinsured business, responsible to WMAC and its reinsurers for administration of WMAC's insurance in-force.

WMAC was financially solvent at the commencement of liquidation proceedings, and has never been financially impaired. The liquidation proceeding became the method by which the interests of Old MGIC policyholders as of February 28, 1985, could be protected from the bankruptcy of Baldwin through an orderly run-off of WMAC's Old Book, and was the method whereby the successful ongoing business of Old MGIC could be disassociated from the Baldwin bankruptcy and continue in the successor MGIC legal entity. Since 1985, WMAC Old Book claims have been paid in full by WMAC or its reinsurers, and the Old Book insurance in-force has gradually diminished by orderly run-off.

In December 1998, Mortgage Guaranty Insurance Company acquired ownership of WMAC through the purchase of WMAC's common capital stock. A rehabilitation plan providing for the acquisition of WMAC by MGIC was approved by the liquidation court and the Commissioner, and effective December 22, 1998, WMAC's liquidation proceedings were terminated and the company became subject to rehabilitation proceedings supervised by the Commissioner. On December 31, 1998, pursuant to the plan of rehabilitation, MGIC acquired 100% of WMAC's common capital stock for the purchase price of \$2 million; WMAC became a

wholly owned subsidiary of MGIC, and the WMAC rehabilitation proceedings were terminated. Immediately upon the close of MGIC's purchase transaction, MGIC contributed capital of \$13 million to WMAC to provide the company with capital in excess of Wisconsin minimum capitalization requirements for the company. The name of the company was changed to MGIC Indemnity Corporation effective June 1, 2000.

MGIC Indemnity Corporation is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment Corporation (the present-day "MGIC Investment"). MIC does not have any employees, and all of its business operations are performed by MGIC pursuant to an intercompany services agreement. Further discussion of the MGIC Investment Corporation holding company, description of MIC's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies."

The company has not written any new insurance business since 1985, and its entire business portfolio is in run-off. The company's business is comprised solely of Old Book renewal premiums on non-cancelable mortgage guaranty insurance commitments that existed on or before February 28, 1985. The insured lender of a given mortgage loan may continue insurance coverages through successive policy renewals so long as the underlying mortgage loan is outstanding. The company's book of business has decreased significantly as insured mortgage loans are satisfied through maturity, refinance, or repayment, or the respective insurance policies are terminated by insureds. The magnitude of the company's run-off of business since December 31, 1985, is summarized in the following table:

Primary Coverages (\$ in billion)	12/31/85	12/31/99	12/31/02
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Unpaid Principal Balance of Loans Underlying Coverages	\$72.2	\$2.3	\$0.402
Mortgage Guaranty Risks in Force	\$17.9	\$0.6	\$0.113

Policy Count	1,562,182	87,891	16,985
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Pool Coverages (\$ in billions)	12/31/85	12/31/93	12/31/02
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Unpaid Principal Balance of Loans Underlying Coverages	\$18.8	\$0.7	\$0.344
Mortgage Guaranty Risks in Force	\$2.7	\$0.4	\$0.232

Policy Count	343,062	26,837	14,708
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The company's 2002 direct business was written in all 50 states and the District of Columbia. In 2002, the company had direct premium written in the following states:

<u>State</u>	<u>Premiums</u>	<u>Percentage</u>
Texas	\$ 283,643	20.8%
Florida	123,523	9.0%
California	87,377	6.4%
Louisiana	65,505	4.8%
New Mexico	57,678	4.2%
All others	<u>748,973</u>	<u>54.8%</u>
Total	<u>\$1,366,699</u>	<u>100.0%</u>

The company is currently licensed to write mortgage guaranty insurance in 43 states and the District of Columbia.

MIC's reinsurance treaties with MGIC and certain unaffiliated reinsurers for the Old Book business remain in effect, but the external domestic reinsurance treaties for the Old Book have been commuted and are no longer applicable. MGIC remains as the manager of the company's 100% quota share reinsured business and continues in its capacity as reinsurer on the business. Further comment on the company's reinsurance program is included in this report in the text section captioned "Reinsurance."

The following table is a summary of the net insurance premiums written by the company in 2002. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	<u>\$1,366,699</u>	<u>\$17,829</u>	<u>\$1,441,415</u>	<u>\$(56,887)</u>
Total All Lines	<u>\$1,366,699</u>	<u>\$17,829</u>	<u>\$1,441,415</u>	<u>\$(56,887)</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The MGIC Indemnity Corporation board of directors consists of seven members, each of whom is elected annually from within the senior executive management of MGIC Investment Corporation. MIC directors are elected to serve a one-year term. Each member of the MIC board of directors also serves as a member of other boards of directors in the holding company group, and receives no additional compensation for services performed as a director of MIC.

Currently the MIC board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Curt S. Culver Nashotah, WI	President and Chief Executive Officer MGIC Investment Corporation	2004
John D. Fisk Kensington, MD	Executive Vice President – Strategic Planning MGIC Investment Corporation	2004
Joseph J. Komanecki Delafield, WI	Senior Vice President, Controller and Chief Accounting Officer	2004
Jeffrey H. Lane Glendale, WI	Senior Vice President, General Counsel and Secretary MGIC Investment Corporation	2004
J. Michael Lauer Elm Grove, WI	Executive Vice President and Chief Financial Officer MGIC Investment Corporation	2004
Patrick Sinks River Hills, WI	Senior Vice President – Field Operations MGIC Investment Corporation	2004
Joseph J. Ziino, Jr. Brookfield, WI	Senior Vice President – Regulatory Relations, Associate General Counsel and Assistant Secretary MGIC Investment Corporation	2004

Officers of the Company

MGIC Indemnity Corporation officers are appointed by the company's board of directors at the annual meeting of the board, and serve a one-year term of office. Senior officers serving at the time of this examination are listed below. Each MIC officer is employed by MGIC, and a portion of the MGIC compensation costs for the respective MIC officers is allocated to MIC through an affiliated servicing agreement. The annual compensation paid to MIC officers in 2002 is reported in the concurrent examination report of MGIC, under the caption "Officers of the Company."

Name	Office
Curt S. Culver	President and Chief Operating Officer
John D. Fisk	Executive Vice President – Strategic Planning
J. Michael Lauer	Executive Vice President and Chief Financial Officer
James S. MacLeod	Executive Vice President – Field Operations
Lawrence J. Pierzchalski	Executive Vice President – Risk Management
Joseph J. Komanecki	Senior Vice President, Controller and Chief Accounting Officer
Jeffrey H. Lane	Senior Vice President, General Counsel and Assistant Secretary
Patrick Sinks	Senior Vice President – Field Operations
Joseph J. Ziino, Jr.	Senior Vice President – Regulatory Relations Associate General Counsel and Secretary
James A. Karpowicz	Vice President and Treasurer

Committees of the Board

The MIC bylaws allow for the formation of certain committees by the board of directors. The company had established one committee of the board at the time of the examination, listed below:

Securities Investment Committee

J. Michael Lauer
Joseph J. Komanecki
Joseph J. Ziino, Jr.

IV. AFFILIATED COMPANIES

MGIC Indemnity Corporation is a member of a holding company system. The ultimate parent of the holding company system is MGIC Investment Corporation.

The following organizational chart depicts the relationships among the affiliates in the holding company group. Each respective subsidiary is a wholly owned affiliate within the MGIC enterprise except as noted otherwise. A brief description of the significant affiliates of MGIC Indemnity Corporation and a summary of significant affiliated agreements follows the organizational chart.

Organizational Chart As of December 31, 2002

- MGIC Investment Corporation
 - Mortgage Guaranty Insurance Corporation
 - MGIC Reinsurance Corporation of Wisconsin
 - MGIC Mortgage Insurance Corporation
 - MGIC Mortgage and Consumer Asset II LLC (Note #1)
 - MGIC Credit Assurance Corporation
 - MGIC Assurance Corporation
 - MGIC Assurance Corporation Segregated Account
 - MGIC Reinsurance Corporation of Vermont
 - GHR Systems, Inc. (12% ownership interest)
 - MGIC Indemnity Corporation
 - eMagic.com
 - Sherman Financial Group LLC (45.5% ownership interest)
 - Equix Financial Services LLC (70.5% ownership interest)
 - MGIC Mortgage and Consumer Asset I LLC (Note #1)
 - CMI Investors LP 5 (99% ownership interest)
 - CMI Investors LP 8 (99% ownership interest)
 - CMI Investors LP 9 (99% ownership interest))
 - CMI Investors LP 2 (99% ownership interest)
 - Credit-Based Asset Servicing & Securitization LLC (45.9% ownership interest)
 - Litton Loan Servicing LP
- MGIC Reinsurance Corporation
- MGIC Mortgage Reinsurance Corporation
- MGIC Residential Reinsurance Corporation
- MGIC Mortgage Marketing Corporation
- MGIC Investor Services Corporation
- MGIC Insurance Services Corporation
- MGIC Mortgage Securities Corporation
- MGIC OneStop Holdings LLC
 - OneStop Shop, Inc. (24% ownership interest)

Note # 1: MGIC Mortgage and Consumer Asset II LLC holds a 1% ownership interest in CMI Investors LP's; the remaining 99% interest is held in MGIC Mortgage and Consumer Asset I LLC.

MGIC Investment Corporation (“MGIC Investment”)

MGIC Investment was incorporated in Wisconsin on June 22, 1984 under the name Management Financing Corporation. MGIC Investment was established as a holding company to consolidate the ownership and capitalization of the legal entities within the MGIC enterprise. The initial capital funding of Management Financing Corporation was provided by The Northwestern Mutual Life Insurance Company and by senior executive officers of MGIC. The holding company name was changed to MGIC Investment Corporation effective March 1, 1985. An initial public offering of MGIC Investment common capital stock was completed in August of 1991, and a second public offering was completed in June 1992. The issued and outstanding shares of MGIC Investment common capital stock are traded on the New York Stock Exchange.

As of February 15, 2003, Legg Mason, Inc., an investment management company, held a 14.59% ownership interest in the outstanding MGIC Investment Corporation capital stock, and Janus Capital Management LLC held a 12.16% ownership interest in MGIC Investment. Officers and directors of MGIC Investment Corporation, who comprise 17 individual share holders, in aggregate held 1.26% ownership interest in MGIC Investment. Interests held by officers and directors included 31,085 share units held under MGIC Investment Corporation's directors' deferred compensation plan for which the holders currently do not have rights to exercise investment or voting power. Other investors, each of whom individually owned less than a 5% interest in MGIC Investment, held the remaining outstanding shares of MGIC Investment common capital stock.

The MGIC enterprise is principally engaged in writing mortgage guaranty insurance on residential mortgage loans. MGIC Investment Corporation insurance subsidiaries provide mortgage guaranty insurance to mortgage lenders, and its non-insurance operating subsidiaries provide products and services to the mortgage finance industry, including contract underwriting, mortgage portfolio analysis, secondary market mortgage brokerage and trading services, and internet-based technology services.

As of December 31, 2002, MGIC Investment's consolidated GAAP basis audited financial statements reported total assets of \$5,300,303,000, total liabilities of \$1,905,111,000,

and total shareholders' equity of \$3,395,192,000. Operations for 2002 provided reported net income of \$629,191,000.

Mortgage Guaranty Insurance Corporation ("MGIC")

MGIC was incorporated under the laws of Wisconsin on February 20, 1979 as Liberty Mortgage Insurance Corporation ("LMIC"). LMIC was originally owned by Verex Corporation and was acquired by MGIC Investment Corporation in November 1984. The name Liberty Mortgage Insurance Corporation was changed to Mortgage Guaranty Insurance Corporation on March 1, 1985, when MGIC began writing new business.

MGIC formerly had two classes of issued and outstanding common capital stock, Class A common stock and Class B common stock. MGIC Investment Corporation retained ownership of the MGIC Class B common stock, and effective September 30, 1985 contributed 100% of the MGIC Class A common stock to the former MGIC Investment subsidiary Mortgage Guaranty Reinsurance Corporation ("MGRC"). Effective May 25, 1999, MGRC was dissolved pursuant to a plan of voluntary dissolution and liquidation approved by the Commissioner. Upon the dissolution of MGRC, all 35,000 issued and outstanding shares of MGIC Class B common stock held by MGIC Investment were redeemed at a price of \$1,000 per share, and the remaining assets and liabilities of the liquidated MGRC legal entity including 100% of the MGIC Class A common capital stock transferred to MGIC Investment Corporation. MGIC's capital stock presently is comprised solely of one class of common stock, wholly owned by MGIC Investment Corporation.

MGIC issues residential mortgage guaranty insurance in 50 states, the District of Columbia, Puerto Rico, and Bermuda. MGIC serves as the lead operating company in the MGIC group, and provides administrative and managerial services to its affiliates. MGIC's direct and indirect costs incurred in providing services to its affiliates are allocated to the respective affiliates pursuant to intercompany services agreements. Excess of loss insurance coverages on risks written by MGIC are ceded to four MGIC affiliate insurers to enable MGIC to comply with statutory restrictions in some states that limit an insurer's net retention of mortgage guaranty insurance for any one risk to not more than 25% of the total indebtedness to the insured.

As of December 31, 2002, MGIC's statutory financial statements reported total admitted assets of \$5,748,861,544, total liabilities of \$4,200,854,153, and policyholders' surplus of \$1,548,007,391. Operations for 2002 provided reported net income of \$256,475,739.

MGIC Reinsurance Corporation of Wisconsin ("MRCW")

MRCW was incorporated under the laws of Wisconsin on February 15, 1996, and commenced operations on April 1, 1996. MRCW was established to provide reinsurance to MGIC for primary and pool mortgage guaranty policy liabilities in excess of 25% of the total indebtedness to the insured, for mortgage guaranty policies written in all jurisdictions except six states. MRCW assumes all of its business from MGIC, and does not cede any business.

As of December 31, 2002, MRCW's statutory financial statements reported total admitted assets of \$648,397,711, total liabilities of \$200,721,132, and policyholder's surplus of \$447,676,579. Operations for 2002 provided reported net income of \$27,646,621.

MGIC Mortgage Insurance Corporation ("MMIC")

MMIC was incorporated under the laws of Wisconsin on April 30, 1987. MMIC was established to be an insurer that maintains a Standard and Poor's Corporation AAA claims paying ability rating, to provide the MGIC group with the facility to write mortgage guaranty insurance on loans that require the insurer to be rated AAA. MMIC assumes coverages issued by MGIC, and does not write any direct insurance business. MMIC has not assumed any new risks from MGIC for the past several years.

Prior to 1996, MMIC was a wholly owned subsidiary of MGIC. In 1996 MGIC contributed 100% of the common capital stock of MMIC to MGIC Reinsurance Corporation of Wisconsin.

As of December 31, 2002, MMIC's statutory financial statements reported total admitted assets of \$79,579,265, total liabilities of \$11,512,325, and policyholder's surplus of \$68,066,940. Operations for 2002 provided reported net income of \$4,535,872.

MGIC Credit Assurance Corporation ("MCAC")

MCAC was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. MCAC is a wholly owned subsidiary of MGIC, and was

established to write mortgage guaranty insurance for lenders in certain states on second mortgages and home equity lines of credit. MCAC commenced writing direct business in 1998, and terminated writing new business effective January 1, 2002. MCAC's current portfolio of insurance risks consists solely of renewal business on existing policies, and MCAC's entire book of business is in run-off.

As of December 31, 2002, MCAC's statutory financial statements reported total admitted assets of \$36,120,251, total liabilities of \$14,915,547, and policyholder's surplus of \$21,204,704. Operations for 2002 resulted in a reported net loss of \$5,573,957.

MGIC Assurance Corporation ("MAC")

MAC was organized under the laws of Oklahoma in 1937 under the name Insurers Indemnity and Insurance Company, and was subsequently renamed Financial Security Assurance, Inc. of Oklahoma ("FSAOK"). FSAOK was acquired by MGIC in 1995, and effective November 18, 1996, MAC redomesticated to Wisconsin and adopted the name MGIC Assurance Corporation.

MAC established a segregated account in 1997 pursuant to the requirements of s. 611.24 (1), Wis. Statutes and s. Ins 3.09 (12)(g), Wis. Adm. Code, through which MAC is authorized to conduct junior lien guaranty insurance business. MAC commenced writing insurance on second mortgages and home equity lines of credit in 1997. MAC terminated writing new business effective January 1, 2002. MAC's current portfolio of insurance risks consists solely of renewal business on existing policies written through the segregated account, and MAC's entire book of business is in run-off.

In 1997, all of the then issued and outstanding capital stock of MAC was contributed to the former MGIC subsidiary insurer MGIC Surety Corporation ("Surety"). MGIC Surety Corporation was merged with and into MGIC effective November 30, 2002. Upon the merger of Surety, the assets and liabilities of MGIC Surety Corporation, including 100% of the issued and outstanding capital stock of MAC, transferred to MGIC.

As of December 31, 2002, MAC's statutory financial statements reported total admitted assets of \$35,284,592, total liabilities of \$12,516,380, and policyholder's surplus of \$22,768,212. Operations for 2002 produced net income of \$232,734.

MGIC Reinsurance Corporation of Vermont ("MRCV")

MRCV was established in December 1999 as a Vermont-domiciled insurer, to operate as a sponsored captive insurance company pursuant to Title 8, Chapter 141 of the State of Vermont Statutes. The Vermont Statutes permit a licensed insurer and participating sponsors to establish a sponsored captive reinsurance company to reinsure business written by the licensed insurer. MRCV reinsures MGIC mortgage guaranty risks on loans that were originated, purchased, or serviced by mortgage lenders which participate in MRCV captive reinsurance. For the business assumed by MRCV on behalf of a participating sponsor, MRCV establishes a protected cell account in which assets of each such participant are separately maintained and accounted for with respect to the participant's liabilities for mortgage guaranty risks assumed by the participant. A separate participation agreement is established between MRCV and each respective participant. By establishing a participation agreement with MRCV, a lender which desires to engage in captive reinsurance is able to participate as a sponsored captive and is not required to establish a separate insurance or reinsurance legal entity. As of year-end 2002, MRCV had nine participation agreements in effect.

As of December 31, 2002, MRCV's statutory financial statements reported total admitted assets of \$3,971,536, including \$1.3 million of trust assets, total liabilities of \$1,073,387, and policyholder's surplus of \$2,898,149. Operations for 2002 produced net income of \$776,615.

eMagic.com, LLC ("eMagic").

eMagic.com, LLC was organized in February 2000 to provide business-to-business interactive electronic services to the mortgage finance industry. eMagic products and services provide an internet technological facility to lenders, mortgage service providers, and other mortgage institutions, to access wholesaler/investor products and vendor services that pertain to the origination of mortgage loans.

As of December 31, 2002, eMagic.com, LLC's GAAP basis financial statements reported total admitted assets of \$1,753,000, total liabilities of \$1,148,000, and members' equity of \$604,000. Operations for 2002 resulted in a reported net loss of \$10,577,000.

Credit-Based Asset Servicing & Securitization LLC ("C-BASS")

C-BASS is a joint venture in which MGIC had a 45.9% ownership interest as of year-end 2002. The venture was formed in July 1996 to engage in the acquisition and resolution of delinquent or otherwise credit sensitive single family mortgage loans. C-BASS purchases, sells, and securitizes residential mortgage loans, seller-financed notes, mortgage-backed securities, and other asset-backed debt securities.

As of December 31, 2002, C-BASS's GAAP basis audited financial statements reported total assets of \$1,754,392,000, total liabilities of \$1,384,855,000, and owners' equity of \$369,537,000. Operations for 2002 provided reported net income of \$138,335,000.

MGIC Reinsurance Corporation ("MGIC Re")

MGIC Re was incorporated under the laws of Wisconsin on February 21, 1985, and commenced business on March 1, 1985. MGIC Re was organized to provide MGIC with excess of loss reinsurance coverage. MGIC Re provides reinsurance to MGIC on primary and pool mortgage guaranty coverage in excess of 25% of the total indebtedness to the insured, on business written in six states. MGIC Re assumes all of its business from MGIC.

As of December 31, 2002, MGIC Re's statutory financial statements reported total admitted assets of \$167,387,887, total liabilities of \$108,714,843, and policyholder's surplus of \$58,673,044. Operations for 2002 provided reported net income of \$5,983,955.

MGIC Mortgage Reinsurance Corporation ("MMRC")

MMRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business activity on that date. MMRC was organized to provide MGIC with excess of loss reinsurance coverage. MMRC provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MMRC's reinsurance on any loan is limited to a maximum of 25% of the total

indebtedness to the insured. MMRC assumes all of its business from MGIC, and does not cede any business.

As of December 31, 2002, MMRC's statutory financial statements reported total admitted assets of \$16,101,360, total liabilities of \$2,088,409, and policyholder's surplus of \$14,012,951. Operations for 2002 provided reported net income of \$1,159,246.

MGIC Residential Reinsurance Corporation ("MRRC")

MRRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business on that date. MRRC was organized to provide MGIC with excess of loss reinsurance coverage. MGIC Residential Reinsurance Corporation provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MRRC reinsurance on any loan is limited to a maximum of 25% the total indebtedness to the insured. MRRC assumes all of its business from MGIC and does not cede any of its business.

As of December 31, 2002, MRRC's statutory financial statements reported total admitted assets of \$15,925,334, total liabilities of \$2,070,188, and policyholder's surplus of \$13,855,146. Operations for 2002 provided reported net income of \$1,085,987.

Affiliated Agreements

1. 1986 Tax Sharing Agreement – The MGIC enterprise maintains a Tax Sharing Agreement whereby MGIC Investment Corporation and specified subsidiaries that qualify under the Internal Revenue Code join in filing a consolidated federal income tax return. Tax benefit or liability attributed to each respective legal entity under the consolidated income tax return is based on the amount of benefit or liability that would otherwise be applicable if the respective legal entity filed a separate United States Corporation Income Tax Return. For purposes of income tax sharing, each subsidiary computes its own income on a separate company basis, and each computes its own respective taxes by applying on a separate company basis the provisions of the Internal Revenue Code. The Tax Sharing Agreement is amended from time-to-time as necessary to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement.
2. 1996 Servicing Agreement – MGIC maintains a Servicing Agreement under which MGIC performs management and administrative services for the benefit of various affiliates within the MGIC holding company. Services provided by MGIC to its affiliates include provision of office space and employees; administration of underwriting, risk management and claims; performance as agent for funds collection and disbursement; maintenance of investment portfolios and execution of investment transactions; maintenance of depository accounts; maintenance of books and records including financial records; and the preparation and delivery of reports, tax returns, and documents and filings, as required. MGIC's direct costs and indirect expenses incurred in providing services to the individual affiliates are allocated to the respective affiliates. The Servicing Agreement is amended from time-to-time as necessary to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement.
3. 1985 Reinsurance Management Agreement – The Reinsurance Management Agreement was established February 28, 1985 upon the entry of WMAC into liquidation proceedings. Pursuant to the agreement, MGIC provides services to participating reinsurers as required for the management and administration of the run-off liabilities of WMAC. Services provided by MGIC under the agreement include issuance of renewals; collections from other reinsurers; servicing of customers; performance of WMAC obligations under quota share reinsurance;; provision of office space and administrative and clerical personnel and services as necessary; performance of processing, settlement, and payment of claims and the disposition of real estate in settlement of claims; preparation of reports for submission to reinsurers; performance as agent for funds collection and disbursement; maintenance of depository accounts, collection and deposit of receipts and rendering of accountings; and the preparation of required reports or filings. Effective July 1, 1987, the agreement was amended to provided that MGIC waived all compensation for periods subsequent to June 30, 1987.
4. MGIC – MIC Indemnity Agreement with respect to New York – Effective September 1, 2000, an Indemnity Agreement was established between MGIC and MIC to facilitate the withdrawal of MIC from the state of New York. The agreement pertains solely to MIC's liabilities in the state of New York for WMAC run-off mortgage guaranty insurance policies written prior to February 28, 1985, including primary insurance issued under master policies on individual mortgage loans and pool insurance issued under mortgage trust supplemental or pool policies. Pursuant to the agreement, MGIC agrees to pay any WMAC insured located in New York all of WMAC's obligations at any time in the event that WMAC has failed to pay any amount due to the insured under WMAC's outstanding policies. Each WMAC insured shall have privity with, direct right of action against, and the right to file claims directly with MGIC to pay WMAC's obligations after WMAC has failed to pay. Under the agreement, MGIC issued an endorsement as required by applicable law to advise insureds of MGIC's indemnity agreement for WMAC business, and MGIC issued an undertaking to governmental agencies

in New York for payment of taxes and other liabilities of WMAC to such agencies. Under the agreement, MGIC is entitled to recover from WMAC the amount paid by MGIC in payment of WMAC obligations as a result of this agreement. The agreement will remain in effect for so long as any of WMAC's policies remain outstanding and in force.

5. MGIC – MIC Capital and Surplus Guaranty with respect to Arkansas and Connecticut – During 2001, MGIC established agreements for the maintenance of MIC capital and surplus in the states of Arkansas and Connecticut as required for the licensure of MIC in those two states. The agreements provide that MGIC will make necessary contributions to MIC to maintain MIC capital and surplus of \$4 million. The agreements are effective until MIC has three consecutive years of profitable operations, but in any event no later than April 30, 2006. MGIC to-date has not made capital contributions to MIC under the agreements.
6. MGIC – MIC Capital and Surplus Guaranty with respect to New Jersey – Effective January 23, 2003, the MGIC Board of Directors adopted a resolution affirming that, as a condition precedent to admission of MIC to conduct business in the State of New Jersey, MGIC will guaranty to maintain MIC capital and surplus sufficient to meet or exceed the statutory capital and surplus requirements of New Jersey. The guaranty is for a five-year term commencing on the date of MIC admission to New Jersey, and was filed with the New Jersey Department of Banking and Insurance on July 21, 2003 for the purpose of facilitating a waiver of the seasoning requirements for admission of an insurance company.
7. MGIC – MIC Unconditional Guaranty Agreement with respect to North Carolina – Effective January 23, 2003, the MGIC Board of Directors adopted a resolution affirming that, pursuant to statutory requirements for admission of MIC to conduct business in the State of North Carolina, MGIC will guaranty to maintain MIC capital and surplus at the greater of the financial requirements established in North Carolina General Statutes or the risk based capital requirements imposed by North Carolina General Statutes. The guaranty is for a three-year term commencing on the earlier of the date of MIC admission to North Carolina or until MIC has three consecutive years of profitable operations. An Unconditional Guaranty Agreement corresponding to the board resolution was executed on July 18, 2003 and was filed with the North Carolina Department of Insurance on July 22, 2003 for the purpose of facilitating a waiver to the seasoning requirements for admission of an insurance company.

V. REINSURANCE

MGIC Indemnity Corporation's reinsurance portfolio and strategy is described below. Each of the reinsurance treaties of the company contains proper insolvency provisions.

The company has not written nor assumed any liability for new insurance risks since February 28, 1985, and its Old Book business has been in run-off since that date. Each of the company's reinsurance treaties pertains to the Old Book—renewal premiums on non-cancelable mortgage guaranty commitments that existed on or before February 28, 1985. The Old Book includes the business of Old MGIC and two of its former subsidiaries, companies then known as MGIC Reinsurance Corporation ("Old MGIC Re") and MGIC Assurance Corporation ("Old MAC"), as of the February 28, 1985 WMAC liquidation proceedings.

Pursuant to the 1985 WMAC liquidation, Old MGIC Re and Old MAC merged into Old MGIC, Old MGIC's name was changed to Wisconsin Mortgage Assurance Corporation, and WMAC entered into liquidation. Each of the reinsurance treaties existing in the Old MGIC, Old MGIC Re, and Old MAC as of the liquidation date remained in effect in WMAC. Old Book business included various assuming and ceding contracts with unaffiliated domestic and with foreign reinsurers. MGIC Indemnity Corporation commuted and terminated each of the former unaffiliated domestic Old Book treaties during the period under examination.

Old Book ceded business includes cessions to one reinsurer that subsequently entered bankruptcy and was liquidated in the mid-1990s ("TMIC Business"). The ceded TMIC Business is a portion of the risk on policies issued by the company on loans originated by approved mortgage lenders for purchase by certain municipal redevelopment agencies located in the state of California. The assuming reinsurance company no longer exists as a legal entity, and MGIC Indemnity Corporation retains the loss exposure on the portion of risks that were ceded as TMIC Business. MIC's retention of TMIC Business is the company's sole retention of ultimate net loss exposure, and is minimal and immaterial to the financial condition of the company, amounting to a mortgage guaranty exposure of \$4,141,099 at year-end 2002 for which the company had recorded total estimated loss reserves of \$94,972 and unearned premium reserves of \$6,653.

Old Book reinsurance contracts and additional ceding treaties that were established in conjunction with the WMAC liquidation collectively provided for the transfer of 100% of WMAC's remaining net liability on all of the existing and renewal WMAC Old Book business, excluding the TMIC Business. In 1984, Old MGIC had entered into a reinsurance program with several European reinsurers and one domestic reinsurer, ceding a 20% quota share portion of the company's net retained risks. Upon the 1985 liquidation proceedings, net retention quota share reinsurance program was amended to include cession of 100% of WMAC's net retained risk for all business. The 1985 quota share contracts cover all net risks remaining after the operation of business cessions under pre-liquidation Old Book ceding treaties. The 1985 net retention quota share program did not apply to the TMIC Business, for which the assuming reinsurer was liquidated and dissolved subsequent to the execution of the 1985 quota share treaties.

In the intervening period since 1985, through a series of assignment and assumption agreements, various reinsurers who participated in the 1985 quota share treaties subsequently assigned their rights and obligations under the quota share treaties to successor reinsurers. Through these assumption and assignment agreements Mortgage Guaranty Insurance Corporation replaced several of the original quota share reinsurers and became the lead reinsurer on the book of business, presently having a 68.0% participation in the 100% quota share assumption of WMAC net retained liability. At the present time MGIC Indemnity Corporation's entire book of business is in run-off, net liabilities on its insurance risks are 100% ceded (excluding the TMIC Business), and the company does not have any material ultimate retention of net loss liability on any insurance risks.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System ("IRIS") ratio results for the period under examination, and the minimum policyholder position calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

MGIC Indemnity Corporation
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$18,234,606	\$ 0	\$18,234,606
Cash	1,512,557		1,512,557
Receivable for securities	61,860		61,860
Reinsurance recoverable on loss and loss adjustment expense payments	3,782		3,782
Federal and foreign income tax recoverable and interest thereon	4,033		4,033
Interest, dividends, and real estate income due and accrued	269,892		269,892
Write-ins for other than invested assets			
Receivable under management agreement	34,639		34,639
Miscellaneous receivable	<u>33,217</u>	<u> </u>	<u>33,217</u>
Total Assets	<u>\$20,154,586</u>	<u>\$ 0</u>	<u>\$20,154,586</u>

MGIC Indemnity Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Losses		\$ 203,922
Loss adjustment expenses		3,921
Unearned premiums		6,653
Ceded reinsurance premiums payable		38,474
Payable to parent, subsidiaries, and affiliates		<u>20,864</u>
Total Liabilities		273,834
Common capital stock	\$ 3,588,000	
Gross paid in and contributed surplus	85,225,792	
Unassigned funds (surplus)	<u>(68,933,040)</u>	
Surplus as Regards Policyholders		<u>19,880,752</u>
Total Liabilities and Surplus		<u>\$20,154,586</u>

MGIC Indemnity Corporation
Summary of Operations
For the Year 2002

Underwriting Income		
Premiums earned		\$ (52,173)
Deductions:		
Losses incurred	\$ 6,347	
Loss expenses incurred	1,459	
Other underwriting expenses incurred	285,872	
Write-ins for underwriting deductions:		
Contingency reserve contribution less withdrawal	<u>(7,806)</u>	
Total underwriting deductions		<u>285,872</u>
Net underwriting loss		(338,045)
Investment Income		
Net investment income earned	928,130	
Net realized capital gains	<u>141,346</u>	
Net investment gain		1,069,476
Other Income		
Finance and service charges not included in premiums		<u>74,661</u>
Net income before federal and foreign income taxes		806,092
Federal and foreign income taxes incurred		<u>160,000</u>
Net Income		<u>\$ 646,092</u>

Premiums collected net of reinsurance			\$(93,046)
Deduct:			
Loss and loss adjustment expenses paid (net of salvage or subrogation)			(37,489)
Underwriting expenses paid			<u>285,872</u>
Cash from underwriting			(341,429)
Net investment income			991,653
Deduct:			
Federal income taxes paid			<u>229,827</u>
Net cash from operations			420,397
Proceeds from investments sold, matured, or repaid:			
Bonds		\$9,533,550	
Cost of investments acquired (long-term only):			
Bonds	\$9,639,243		
Miscellaneous applications	<u>(11,583)</u>		
Total investments acquired		<u>9,627,660</u>	
Net cash from investments			(94,110)
Cash provided from financing and miscellaneous sources:			
Other cash provided		74,661	
Cash applied for financing and miscellaneous uses:			
Net transfers to affiliates	13,405		
Other applications	<u>2,694</u>		
Total		<u>16,099</u>	
Net cash from financing and miscellaneous sources			<u>58,562</u>
Net change in cash and short-term investments			384,849
Reconciliation			
Cash and short-term investments, December 31, 2001			<u>1,127,708</u>
Cash and short-term investments, December 31, 2002			<u>\$1,512,557</u>

MGIC Indemnity Corporation
Policyholder Position Calculation
December 31, 2002

Surplus as regards policyholders			\$19,880,752
Contingency reserve			<u>112,865</u>
Total policyholders position			19,993,617
Net minimum policyholders' position			
Individual loans:			
Loan-to-value more than 75%	\$1,212,832		
Loan-to-value 50 - 75%	<u>402</u>		
Total individual loans		\$1,213,233	
Group of Loans:			
Equity 20 - 50%, or equity plus prior insurance or deductible 25 – 55%	668,670		
Equity more than 50%, or equity plus prior insurance or a deductible less than 25%	<u>\$ 16,415</u>		
Total group loans		<u>685,086</u>	
Minimum policyholder position			<u>1,898,319</u>
Excess of total policyholders' position over minimum policyholders' position			<u>\$18,095,298</u>

MGIC Indemnity Corporation
Reconciliation and Analysis of Surplus
For the Three-Year Period Ending December 31, 2002

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2000	2001	2002
Surplus, beginning of year	\$17,711,133	\$18,353,849	\$19,231,660
Net income	642,716	879,073	646,092
Change in net deferred income tax		3,000	3,000
Cumulative effect of changes in accounting principles		(4,262)	
Capital changes:			
Transferred from surplus	1,793,265		
Surplus adjustments:			
Transferred to capital	(1,793,265)		
Surplus, end of year	<u>\$18,353,849</u>	<u>\$19,231,660</u>	<u>\$19,880,752</u>

MGIC Indemnity Corporation
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2002

The company's NAIC Insurance Regulatory Information System ("IRIS") results for the years under examination are summarized in the following table. The unusual IRIS results during the period are denoted with asterisks, and are discussed following the table of IRIS data.

	Ratio	2000	2001	2002
#1	Gross Premium to Surplus	22%	11%	7%
#2	Net Premium to Surplus	0%	0%	0%
#3	Change in Net Writings	(37)%*	(55)%*	(417)%*
#4	Surplus Aid to Surplus	0%*	0%*	0%
#5	Two-Year Overall Operating Ratio	(1,227)%	(2,086)%	0%
#6	Investment Yield	7%	6%	5%
#7	Change in Surplus	4%	5%	3%
#8	Liabilities to Liquid Assets	3%	2%	1%
#9	Agents' Balances to Surplus	(1)%	0%	0%
#10	One-Year Reserve Devel. to Surplus	(1)%	(1)%	0%
#11	Two-Year Reserve Devel. to Surplus	(1)%	(1)%	(1)%
#12	Estimated Current Reserve Def. To Surplus	(1)%	(1)%	0%

IRIS ratio number 3 evaluates year-to-year changes in an insurer's net written premium. The company's unusual results in 2000, 2001, and 2002 are due to large annual decreased in written premium volume, and reflect the continuing run-off of the company's existing book of business. The company's written business has been in run-off since February 1985, and its business volume is decreasing over time as existing policies mature or are otherwise canceled or non-renewed by insured lenders due to loan repayments or refinancing activities.

Growth of MGIC Indemnity Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2000	\$18,761,067	\$407,218	\$18,353,849	\$642,716
2001	19,641,667	410,007	19,231,660	879,073
2002	20,154,586	273,843	19,880,752	646,092

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2000	\$4,080,607	\$39,831	\$50,678	(83.3)%	973.8%	890.5%
2001	2,064,011	17,943	26,973	(369.2)%	1,378.7%	1,009.5%
2002	1,384,528	(56,887)	(52,173)	(15.0)%	(357.6)%	(372.6)%

Annual net contingency reserve contributions, required due to annual changes in premiums written, are included in the expense ratio calculations reported above, and contributed to the expense ratios experienced by the company in the years under examination.

Decreased annual premium income reported in the company's financial data during the period under examination reflect the company's 1985 termination of writing new insurance policies and the run-off of its existing book of business. MIC's insured risks in force and annual premium revenues are decreasing from year-to-year as existing insured mortgages mature and as insured lenders terminate or non-renew insurance coverages. During the period under examination the company's primary coverage risks in force decreased by 81% to \$113 million, and its pool coverage risks in force decreased by 42% to \$232 million. The company's current business plan is to continue the run-off of its existing portfolio of insurance policies.

Reconciliation of Surplus per Examination

The examination did not make any reclassification of or adjustment to year-end balances reported by the company. The company's surplus as regards policyholders as of December 31, 2002 was \$19,880,752.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The previous examination report did not contain any findings of exception or recommendations.

Summary of Current Examination Results

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

VIII. CONCLUSION

MGIC Indemnity Corporation was originally organized in 1956 under the name Mortgage Guaranty Insurance Corporation (“Old MGIC”), and through February 28, 1985 the company was the lead direct mortgage guaranty insurance writer in the Old MGIC insurance group. In 1982, ownership and control of the was acquired by Baldwin-United Corporation. The Baldwin enterprise became financially impaired in 1983, various Baldwin subsidiaries were liquidated, and Baldwin entered bankruptcy proceedings.

The Baldwin bankruptcy damaged Old MGIC’s ability to compete in its target markets and posed an imminent threat to the company’s business continuation. To protect existing Old MGIC policyholders from the Baldwin bankruptcy and to ensure the on-going continuation of Old MGIC’s successful mortgage guaranty business, Old MGIC entered court-ordered liquidation proceedings effective February 28, 1985 under the supervision of the Commissioner. As part of the liquidation proceedings, the name of the company was changed to Wisconsin Mortgage Assurance Corporation, and the continuing operations of the former Old MGIC transferred to the present-day Mortgage Guaranty Insurance Corporation. WMAC ceased writing new insurance business, WMAC’s Old Book of business entered run-off, and 100% of WMAC’s net retained liability for insurance risks was ceded to a group of international reinsurers under quota share reinsurance treaties.

The company was never financially impaired prior to or during the liquidation proceedings. The WMAC liquidation facilitated the preservation of WMAC’s existing insurance guarantees through run-off, and enabled the successful mortgage guaranty enterprise of Old MGIC to continue in a successor legal entity, the present-day Mortgage Guaranty Insurance Corporation.

In December 1998, WMAC’s liquidation proceedings were terminated and the company entered rehabilitation proceedings. Mortgage Guaranty Insurance Corporation purchased WMAC on December 31, 1998, rehabilitation proceedings were terminated, and MGIC contributed \$13 million of capital to the company, providing the company with capital in excess of

Wisconsin minimum surplus requirements. The company changed its name to MGIC Indemnity Corporation effective June 1, 2000.

The company has reestablished its licenses in various state jurisdictions, preliminary to potentially resuming operations as an active mortgage guaranty insurer. The company currently does not have definitive plans for the reactivation of the company and for the resumption of writing new business. All of the day-to-day administrative and operating functions of the company are provided by MGIC pursuant to the company's affiliated services agreement with MGIC.

The previous examination of the company did not result in any recommendations. The current examination did not result in any findings of material exception, and did not result in any reclassification of account balances or adjustment to surplus. As of December 31, 2002, the company reported admitted assets of \$20,154,586, total liabilities of \$273,834, and total surplus as regards policyholders of \$19,880,752.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Rebecca Easland	Insurance Financial Examiner
Ryan Hanson	Insurance Financial Examiner
Tom M. Janke	Insurance Financial Examiner
Russell Lamb	Insurance Financial Examiner
Randy Milquet	Insurance Financial Examiner—Advanced

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge